

Message Text

LIMITED OFFICIAL USE

PAGE 01 ROME 07116 01 OF 02 231804Z

43

ACTION TRSE-00

INFO OCT-01 EUR-25 ISO-00 FS-01 ABF-01 DODE-00 L-03 FRB-02

DRC-01 RSC-01 /035 W

----- 015228

R 231626Z MAY 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 4957

INFO AMEMBASSY PARIS

USCINCEUR VAIHINGEN/ECCM

LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 7116

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: RENEGOTIATION OF ARRANGEMENT ON EXCHANGE RATE AND LIRA
PURCHASES OF US GOVERNMENT IN ITALY

FOR DEFENSE, TREASURY (PASS FISCAL SERVICE COX),
PARIS RFC FOR LERCHBAUM

REF: (A) ROME 3991 OF MARCH22, 1974 (B) ROME 3136 OF MARCH 6,
1974 (C) ROME 1651 OF FEBRUARY 5, 1974

1. SUMMARY. DUE TO UNIFICATION OF ITALIAN DUAL EXCHANGE
MARKET ON MARCH 22 (REPORTED REF A), OUR PROPOSED
PROCEDURE TO OBTAIN FOREIGN BANKNOTE VERSION OF FORMER
FINANCIAL LIRA RATE FOR USG LIRE PURCHASES IS NO LONGER
VIABLE (SEE REF B). NEVERTHELESS, WE BELIEVE THAT
SPECIAL ARRANGEMENT BETWEEN USG AND GOI CONCERNING
EXCHANGE RATE FOR USG EXPENDITURES IN ITALY SHOULD BE
PRESERVED. WE THEREFORE PROPOSE THAT WE PROCEED WITH
EXCHANGE OF LETTERS BETWEEN AMBASSADOR AND ITALIAN
TREASURY MINISTER. INFORMAL APPROVAL OF NEW DRAFT TEXT
OF PROPOSED LETTER AND OF ANNEX HAS BEEN RECEIVED FROM
BANK OF ITALY, EXCHANGE OFFICE, FOREIGN TRADE AND
TREASURY MINISTRIES. REQUEST APPROVAL BY WASHINGTON
AGENCIES OF TEXT OF ARRANGEMENT, SO THAT EXCHANGE OF
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ROME 07116 01 OF 02 231804Z

LETTERS CAN BE MADE. END SUMMARY.

2. ALTHOUGH LEGAL RATE STILL EXISTS FOR FOREIGN BANKNOTES, IT HAS BEEN ONLY TWO TO SEVEN LIRE MORE FAVORABLE THAN NEW OFFICIAL RATE AND RECENTLY HAS OCCASIONALLY BEEN LESS FAVORABLE. THIS DIFFERENCE PROVIDES INSUFFICIENT INCENTIVE TO ESTABLISH COMPLEX SYSTEM PROVIOUSLY CONSIDERED, SINCE IT WAS PREDICATED ON MUCH LARGER SPREAD (SEE REF C). IN ANY CASE, NEW ARRANGEMENT WOULD PROVIDE POSSIBILITY OF BUYING LIRE FROM BOI EITHER AT ORDINARY RATE OR AT FOREIGN BANKNOTE RATE (LESS 0.1 PERCENT SHIPMENT FEE). RATHER THAN SUSPEND DISCUSSIONS WITH GOI ALTOGETHER, WE PROPOSE TO PROCEED WITH EXCHANGE OF LETTERS BETWEEN AMBASSADOR AND ITALIAN MINISTER OF TREASURY.

3. WE RECOGNIZE THAT FINANCIAL INCENTIVE FOR INTRODUCING NEW ARRANGEMENT TO REPLACE OLD TASCA AGREEMENT HAS BEEN ELIMINATED AS RESULT OF UNIFICATION OF EXCHANGE RATES AND THAT PRESENT MORE LIMITED PROPOSAL HAS BOTH ADVANTAGES AND DISADVANTAGES. HOWEVER, WE BELIEVE THAT FORMER OUTWEIGH LATTER. ADVANTAGES ARE: (1) MAINTAINING CONTINUITY IN SPECIAL USG/GOI EXCHANGE RATE ARRANGEMENTS; (2) TERMINATING SOME RECENT EXCHANGE OPERATIONS BY USG AGENCIES WHICH COULD PROVE EMBARRASSING FOR USG/GOI RELATIONS; AND (3) PROVIDING DIRECT EVIDENCE IN GOI'S OWN STATISTICS OF AT LEAST PART OF USG MILITARY EXPENDITURES IN ITALY FOR BURDEN-SHARING PURPOSES.

4. SUBSTITUTION OF NEW PROCEDURAL ARRANGEMENT FOR 1947 TASCA AGREEMENT WOULD INFORMALLY RECONFIRM COMMITMENT OF GOITO GRANT USG SPECIAL AND FAVORABLE EXCHANGE RATE ARRANGEMENTS. ALTHOUGH ADVANTAGES OF USG OF MAINTAINING SPECIAL ARRANGEMENT MAY NOT APPEAR VERY GREAT AT PRESENT, WE BELIEVE THAT, GIVEN POSSIBILITY OF FURTHER CHANGES IN ITALIAN EXCHANGE REGIME, ARRANGEMENT COULD PROVE TO BE OF VALUE AT SOME FUTURE TIME.

5. PROPOSED REVISED PROCEDURES (ANNEX APPENDED TO AMBASSADOR'S LETTER) ARE INTENDED TO RETURN TO ORIGINAL LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ROME 07116 01 OF 02 231804Z

TASCA AGREEMENT INTENT, SO AS TO REQUIRE ALL OFFICIAL LIRE PURCHASES TO BE MADE EXCLUSIVELY FROM BRANCHES OF BANK OF ITALY. DURING EXISTENCE OF DUAL MARKET, MILITARY DISBURSING OFFICERS WERE PERMITTED TO PURCHASE LIRE FROM BANKS AND OTHER AUTHORIZED EXCHANGE DEALERS TO OBTAIN BEST RATE AVAILABLE, PROVIDED THAT TRANSACTIONS WERE LEGAL UNDER ITALIAN EXCHANGE REGULATIONS. DURING PAST YEAR, WE HAVE BECOME AWARE THAT TRANSACTIONS OF

QUESTIONABLE PROPRIETY WERE BEING MADE. PURCHASING OF LIRE FOR US GOVERNMENT AGENCIES NEEDS EXCLUSIVELY FROM BOI WOULD PRECLUDE OCCURRENCE OF TRANSACTIONS WHICH MAY BE FEEDING BLACK MARKET AND CONTRAVENING INTENT OF ITALIAN EXCHANGE CONTROLS. DIRECT LIRA PURCHASES FROM BOI WOULD ALSO PROVIDE RECORD IN BANK OF ITALY'S OWN STATISTICS OF PART OF US MILITARY EXPENDITURES IN ITALY FOR BALANCE OF PAYMENTS BURDEN-SHARING PURPOSES.

6. RESTRICTING ALL USG LIRE PURCHASES IN ITALY TO BOI WOULD ALSO MEAN THAT RFC PARIS WOULD NO LONGER BE ABLE TO PURCHASE LIRE FROM OTHER SOURCES FOR USE IN ITALY. WE UNDERSTAND THAT ACCORDING TO SECTION 331.3 OF DEPARTMENT OF STATE MANUAL (4FAM), WHERE STATE AND TREASURY HAVE APPROVED USE OF A SPECIAL RATE, THAT SPECIAL RATE, RATHER THAN PREVAILING MARKET RATE, US USED. OUR RECORDS SHOW THAT EXCHANGE RATE AVAILABLE TO RFC OUTSIDE ITALY HAS SELDOM BEEN SIGNIFICANTLY HIGHER THAN OFFICIAL RATE INSIDE ITALY. DURING PERIOD MARCH 20, 1973 TO MAY 21, 1974, MAXIMUM SPREAD WAS 9 LIRE PER DOLLAR, WHICH OCCURRED ON ONLY TWO OCCASIONS. ON ONLY 16 DAYS IN PERIOD OF MORE THAN ONE YEAR DID OUTSIDE RATE EXCEED RATE IN ITALY BY 4 LIRE OR MORE.

7. CHIEF DISADVANTAGE OF PROPOSAL WOULD BE TERMINATION OF SOME RECENT LIRA PURCHASES BY USG AGENCIES AT VERY FAVORABLE EXCHANGE RATES. THESE OPERATIONS WERE POSSIBLE BECAUSE AUTHORIZED EXCHANGE DEALERS WERE RE-SELLING DOLLARS ILLEGALLY TO ITALIANS FOR ILLICIT CAPITAL EXPORTS. WE RECOGNIZE THAT IT IS NOT RESPONSIBILITY OF USG TO ATTEMPT TO ENFORCE ITALIAN EXCHANGE CONTROLS. ON OTHER HAND, WE ARE TROUBLED BY OPERATIONS BY US LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 ROME 07116 01 OF 02 231804Z

GOVERNMENT AGENCIES WHICH CLEARLY HAVE EFFECT OF UNDER-CUTTING FINANCIAL POLICIES OF FRIENDLY GOVERNMENT. WE WOULD LIKE TO POINT OUT THAT HIGH EXCHANGE RATES AVAILABLE FROM SOME EXCHANGE DEALERS DO NOT REFLECT ANY GOI POLICY TO MAINTAIN ARTIFICALLY OVERVALUED OFFICIAL EXCHANGE RATE, AS IS SOMETIMES TRUE IN OTHER PARTS OF WORLD. HIGH RATES DO REFLECT PREMIUM WHICH SOME ITALIANS ARE PREPARED TO PAY IN ORDER TO EXPORT CAPITAL ILLEGALLY FOR VARIETY OF POLITICAL, INCOME YIELD, CURRENCY SPECULATION AND TAX EVASION REASONS. ALTHOUGH ILLEGAL CAPITAL EXPORTS IN ABSOLUTE TERMS ARE FAIRLY LARGE, VOLUME OF SUCH TRANSACTIONS AT BLACK MARKET RATES IS STILL SMALL RELATIVE TO VOLUME OF TRANSACTIONS THAT TAKE PLACE THROUGH OFFICIAL EXCHANGE MARKET.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 ROME 07116 02 OF 02 231759Z

43

ACTION TRSE-00

INFO OCT-01 EUR-25 ISO-00 FS-01 ABF-01 DODE-00 L-03 FRB-02

DRC-01 RSC-01 /035 W

----- 015125

R 231626Z MAY 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 4958

INFO AMEMBASSY PARIS

USCINCEUR VAIHINGEN/ECCM

LIMITED OFFICIAL USE SECTION 2 OF 2 ROME 7116

8. WE HAVE LIMITED THE APPLICABILITY OF NEW DRAFT PROCEDURE TO OFFICIAL TRANSACTIONS OF US GOVERNMENT AGENCIES. WE PROPOSE TO PERMIT INDIVIDUALS TO OBTAIN THEIR LIRE THROUGH THIS SYSTEM OR TO PURCHASE THEIR LIRE FROM AUTHORIZED BANKS AND EXCHANGE DEALERS WITHIN TERMS OF ITALIAN EXCHANGE REGULATIONS.

9. FOLLOWING IS ENGLISH TEXT OF DRAFT LETTER FROM AMBASSADOR VOLPE TO MINISTER OF TREASURY COLOMBO AND ATTACHED ANNEX. COPIES IN ITALIAN HAVE BEEN PROVIDED ON INFORMAL BASIS TO BANK OF ITALY, EXCHANGE OFFICE AND MINISTRIES OF TREASURY AND FOREIGN TRADE, WHO HAVE GIVEN PROVISIONAL APPROVAL TO TEXTS.

10. QUOTE. DEAR MR. MINISTER: AS A RESULT OF THE VARIOUS CHANGES WHICH HAVE TAKEN PLACE IN THE FOREIGN EXCHANGE REGIME IN ITALY, ESPECIALLY THE CREATION AND SUBSEQUENT ABOLITION OF A MULTIPLE EXCHANGE RATE SYSTEM AND THE CONTINUATION OF A FLOATING RATE, PROBLEMS HAVE ARISEN IN APPLICATION OF THE "TASCA" AGREEMENT. THIS AGREEMENT CONCERNS THE DETERMINATION OF THE DOLLAR-LIRA RATE OF EXCHANGE TO BE APPLIED TO UNITED STATES GOVERNMENT EXPENDITURES IN ITALY AND THE PROCEDURES TO BE USED FOR PURCHASING LIRE FOR THESE PURPOSES. YOU

MAY RECALL THAT THE TASCA AGREEMENT DATES FROM JANUARY
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ROME 07116 02 OF 02 231759Z

25, 1947 AND TOOK THE FORM OF AN EXCHANGE OF LETTERS
BETWEEN THEN THEN MINISTER OF THE TREASURY BERTONE AND
MR. TASCA, THEN U.S. TREASURY REPRESENTATIVE AT THE
AMERICAN EMBASSY IN ROME .

11. THE ANNEX TO THIS LETTER CONSTITUTES A PROPOSED
NEW PROCEDURE TO REPLACE THE TASCA AGREEMENT WHICH
WOULD PERMIT THE U.S. GOVERNMENT O HAVE A FAVORABLE
RATE OF EXCHANGE CONSISTENT WITH THE EXISTING FOREIGN
EXCHANGE REGIME IN ITALY. IF YOU, MR. MINISTER, ARE
IN AGREEMENT WITH THE ATTACHED PROPOSAL, YOUR LETTER
OF ACKNOWLEDGEMENT, TOGETHER WITH THIS LETTER AND
ANNEX, WILL CONSTITUTE A NEW UNDERSTANDING SUPERSEDING
THE PROVISIONS OF THE AGREEMENT OF JANUARY 25, 1947 (AS
PREVIOUSLY AMENDED). SINCERELY YOUR, JOHN A. VOLPE.

12. ANNEX - PROCEDURE FOR FIXING THE EXCHANGE RATE
AND FOR PURCHASING LIRE FOR U.S. GOVERNMENT EXPENDITURES IN
ITALY. PARAGRAPH 1. THE NORMAL WAY IN WHICH THE UNITED
STATES GOVERNMENT WILL OBTAIN LIRE FOR U.S. GOVERNMENT
EXPENDITURES WILL BE THROUGH PURCHASES FROM THE BANK
OF ITALY WITH PAYMENT MADE BY A DOLLAR CHECK DRAWN ON
THE U.S. TREASURY. THE APPLICABLE EXCHANGE RATE WILL
BE THE PREVIOUS DAY'S AVERAGE OF THE OFFICIAL RATES OF
EXCHANGE AT FIXING ON THE ROME AND MILAN STOCK EXCHANGES.
HOWEVER, AT ITS OPTION THE U.S. GOVERNMENT MAY PURCHASE
LIRE FROM THE BANK OF ITALY WITH PAYMENT IN U.S.
BANKNOTES AT THE PREVIOUS DAY'S AVERAGE OF THE FIXING
RATES FOR LARGE DENOMINATION DOLLAR BANKNOTES ON THE
ROME AND MILAN STOCK EXCHANGE, NET OF A REIMBURSEMENT FEE
FOR EXPENDITURES OF 0.1 PER CENT. PURCHASES OF LIRE MAY BE
MADE BY U.S. GOVERNMENT CIVILIAN AND MILITARY DISBURSING
OFFICERS FROM ANY OF THE BANK OF ITALY'S BRANCHES
THROUGHOUT ITALY. PRIOR TO ANY CHANGE IN THE METHOD
OF CALCULATING THE RATE OF EXCHANGE AS PROVIDED IN THIS
PARAGRAPH, AN UNDERSTANDING SHALL BE REACHED WITH RESPECT
TO THE PROCEDURE TO BE USED IN THE IMPLEMENTATION OF
THESE PROVISIONS.

13. PARAGRAPH 2. THE BANK OF ITALY BRANCHES WILL SUPPLY
A STATEMENT TO DISBURSING OFFICERS AT THE TIME OF EACH
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ROME 07116 02 OF 02 231759Z

LIRA/DOLLAR CONVERSION SHOWING THE AMOUNT OF LIRE DELIVERED, THE NUMBER OF DOLLARS GIVEN IN EXCHANGE AND THE RATE OF EXCHANGE AT WHICH THE LIRE IN QUESTION WERE SUPPLIED. IN ADDITION, THE BANK WILL PROVIDE TO THE AMERICAN EMBASSY IN ROME A MONTHLY REPORT OF THE TOTAL VOLUME OF DOLLAR/LIRA CONVERSIONS CARRIED OUT BY THE BANK AT EACH OF ITS BRANCHES.

14. PARAGRAPH 3. THE U.S. GOVERNMENT WILL PURCHASE ALL OF ITS LIRE FOR OFFICIAL EXPENDITURES IN ITALY FROM THE BANK OF ITALY IN ACCORDANCE WITH THE ABOVE PROCEDURES.

15. PARAGRAPH 4. IN THE EVENT THAT THERE SHOULD OCCUR A SUBSTANTIAL CHANGE IN ITALY'S FOREIGN EXCHANGE REGIME, PARTICULARLY AFFECTING THE EXCHANGE RATE SYSTEM, EITHER PARTY MAY REQUEST CONSULTATIONS IN ORDER TO DETERMINE WHETHER AND HOW THE PRESENT PROCEDURE SHOULD BE MODIFIED. END QUOTE. VOLPE

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOLLAR, BALANCE OF PAYMENTS, LIRA, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 23 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME07116
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740129-0654
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740523/aaaaaucp.tel
Line Count: 296
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) ROME 3991 OF MARCH22, 1974 (B) R, OME 3136 OF MARCH 6
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2002 by kellew0>; APPROVED <04 MAR 2003 by GarlanWA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RENEGOTIATION OF ARRANGEMENT ON EXCHANGE RATE AND LIRA PURCHASES OF US GOVERNMENT IN ITALY
TAGS: EFIN, IT, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005